International Systcoms Limited

ANNUAL REPORT
For the year ended April 30th 1970

Notice to Shareholders of International Systcoms Limited

September 10, 1970

Your company reports an encouraging first quarter in the current year. Last year's practice of announcing quarterly results to the press will be continued and in addition a direct mailing will be made to all shareholders, thus enabling you to follow closely the quarter by quarter results of operations.

International Systcoms had consolidated sales of $672,900 for the quarter. Consolidated profit of $10,500 included profit of the Communications Division partially offset by losses at Ferritronics. The Ferritronics losses resulted from continued low shipments even though the upward trend has been re-established and orders from the U.S. market are being received. Sales at R. H. Nichols continued high during the quarter at $959,600, resulting in profit of $35,700 well on budget.

	3 MONTHS ENDING JULY 31, 1970	COMPARATIVE 3 MONTHS ENDING JULY 31, 1969
R. H. NICHOLS CO. LTD.		
Sales	$959,600	$745,400
Profit	35,700	N/A
INTERNATIONAL SYSTCOMS CONSOLIDATED (not including R. H. Nichols)		
Sales	$672,900	$538,000
Profit	10,500	N/A

Forecasts for the second quarter continue bright, with R. H. Nichols and Communications Division maintaining their good shipment levels and Ferritronics increasing its uptrend.

J H Baldwin

J. H. Baldwin,
President

NOTE:

A typographical error should be corrected in the annual report of April 30, 1970. The final item on the R. H. Nichols Balance Sheet under Liabilities 1969 for "Reserve for redemption of second preference shares" should be $68,407, same as 1970 not $608,407.

OFFICERS AND DIRECTORS

Board of Directors

John H. Baldwin
Robert E. Bellamy
John W. Dobson
Gerald Gray
Paul F. McDonald
A. Roy Megarry
Joseph F. Nealon
Michael P. Pick
F. Vincent Regan

Officers

John H. Baldwin, P.Eng., President
A. Roy Megarry, Vice President — Finance and Treasurer
Frederick J. Looker, Vice President
Joseph F. Nealon, Vice President
F. Vincent Regan, Secretary

Auditors

McDonald, Currie & Co.
630, Dorchester Boulevard West
Montreal 101, Quebec

Transfer Agent and Registrar

Montreal Trust Company
777 Dorchester Boulevard West
Montreal 113, Quebec

General Legal Counsel

F. Vincent Regan Q.C., Toronto

Head Office

4900 Fisher Street
Montreal 377, Quebec

Bankers

The Royal Bank of Canada
The Toronto-Dominion Bank
Canadian Imperial Bank of Commerce

PRESIDENT'S REPORT TO THE SHAREHOLDERS

Your company has now completed a year of rebuilding; rebuilding the management team, the manufacturing capacity, the working capital, the internal systems and the profit outlook. The results of these efforts are now apparent in the recent performance, but were not achieved without cost. Losses continued in all divisions at a reducing rate during the year and the company is now operating profitably.

Last year's annual report, published in October, held out hope that the corner was turned at that time, but proved to be premature. The operations of the company did come close to break even in the final quarter, as forecast in the material which accompanied the rights offering. However, careful analysis of inventories and accounts receivable at year-end revealed losses not anticipated, a number being of a non-recurring nature attributable to previous years or the early part of the past year. Some of the specific items included in the loss for the year are: at Nichols, write-off of all remaining deferred engineering charges of $46,458 against the year's operations plus a small further provision for completion of the Nigerian contract; at Systcoms the loss of $285,105 recorded on the sale of Delta Electronics, further costs to wind up Progress Balance & Control in the amount of $107,000 and a reduction of inventory of $61,500 in the Communications Division to provide for more conservative statement of work in process. These items are non-recurring and only to a small degree attributable to the operations of the company during the past year.

The financial statements of R. H. Nichols Co. Limited are not consolidated with those of International Systcoms Limited for the reasons outlined in note 1 (a) to the consolidated financial statements. However, in order to conform to generally accepted accounting principles, the carrying value of the investment by International Systcoms in R. H. Nichols Co. Limited has been written down to the estimated net realizable value and the write-down has been included as an extraordinary charge against earnings for the year. This has served to increase the loss reported by International Systcoms Limited by an amount of $340,226. The accounts of R. H. Nichols Co. Limited reflect an operating loss for the year of $422,190. Care should be taken not to add the loss of Nichols to that of International Systcoms. Should R. H. Nichols Co. Limited earn profits in the current and future years, the carrying value of the investment of International Systcoms Limited will increase.

Sale of Systcoms' holdings in Delta Electronics allowed the major bank loan to be retired in December. A successful rights offering in March provided the company with working capital to support the high level of shipments being maintained. Additional capital will be required as growth continues. Anticipated profits will not produce sufficient cash flow and so your company is presently negotiating a private placement of common shares.

The market for your company's products remained firm for most divisions, although Ferritronics suffered from softness in the United States manufacturing market, failing to meet its forecast growth. This division has been re-organized under new management and is expected to re-establish its growth curve.

Communications Division continued to strengthen its position as a supplier of mobile telephones to the Trans Canada Telephone Companies and to major business users of mobile radios. Installations of the Systcoms Fringe Radio have proven the potential of this product and export is now being considered. Continuing demand for the attache case telephone has been confirmed and a change in the method of marketing of this product in the United States has been made.

R. H. Nichols, as the major Canadian supplier of remote control equipment for hydro-electric systems and pipelines, maintained its share of the market. These large control systems have continued to be required as part of long-term utility expansion plans, thus showing growth in sales during a period of general softness in the economy.

Backlogs in both major divisions at this time are adequate, and prospects are good for continued sales increase in the current year. The plants are now capable of meeting delivery commitments and efficiencies introduced are resulting in profitable operations. Careful budgeting and improved cost reporting will ensure that such improvement will be continuously monitored and controlled throughout the year.

The management team directing the efforts of your company is now made up of successful executives with proven records of accomplishment. Their background and training have been that of the large multi-national companies and their contribution to the strength of the organization is only just beginning to be felt. The competence and enthusiasm of the employees are the best assurance of your company's future success.

John H. Baldwin

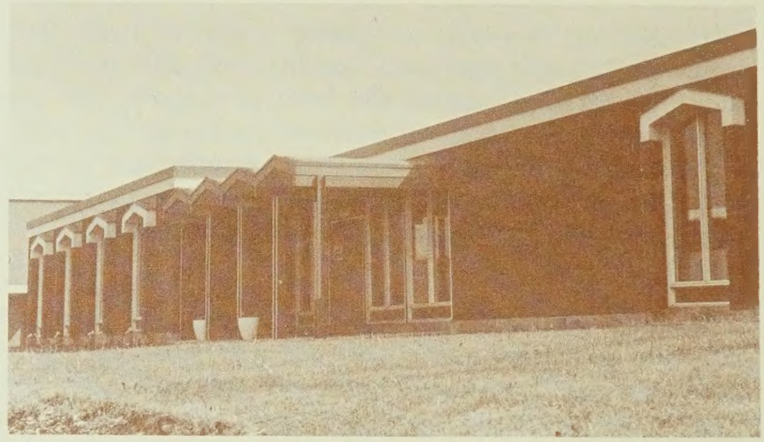
JOHN H. BALDWIN, President

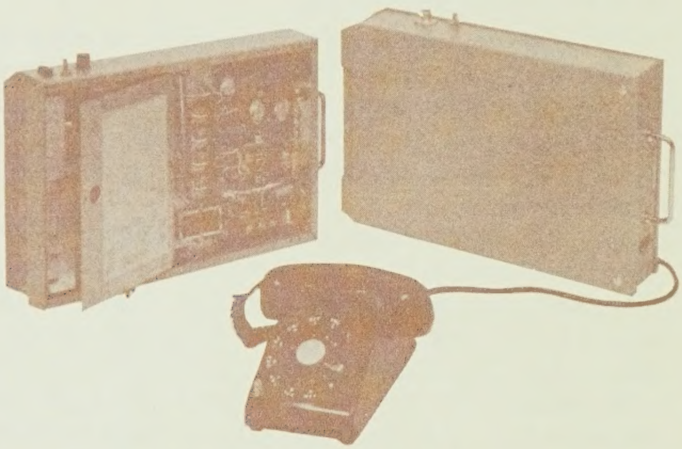
YOUR COMPANY – ITS DIVISIONS AND PRODUCTS

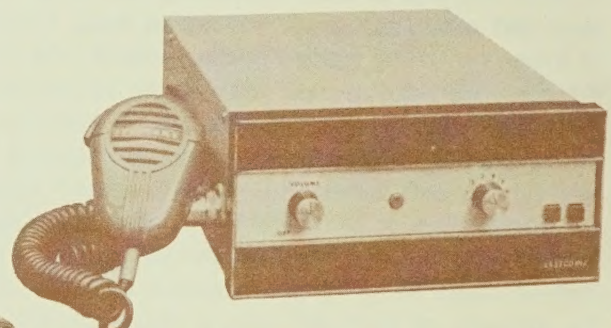
ISL – COMMUNICATIONS DIVISION

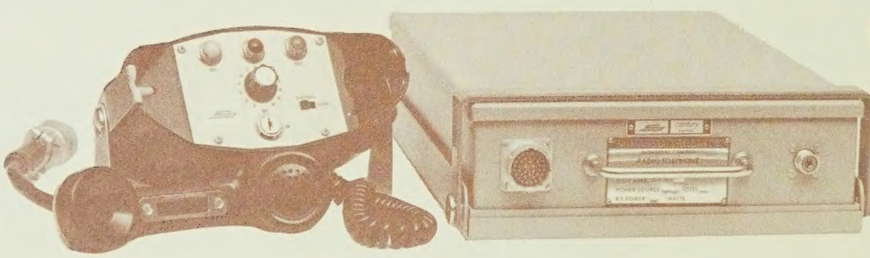
Manufacturing facilities in Montreal, P.Q. and Plattsburg, N.Y. produce Mobile radio telephones for public and private use — trunk mount and under-dash mount; VHF hand-held transceivers and Radio paging systems.

Typical major customers: Bell Telephone of Canada, BC Telephone, Alberta Government Telephone, CN Telecommunications.









FERRITRONICS LIMITED

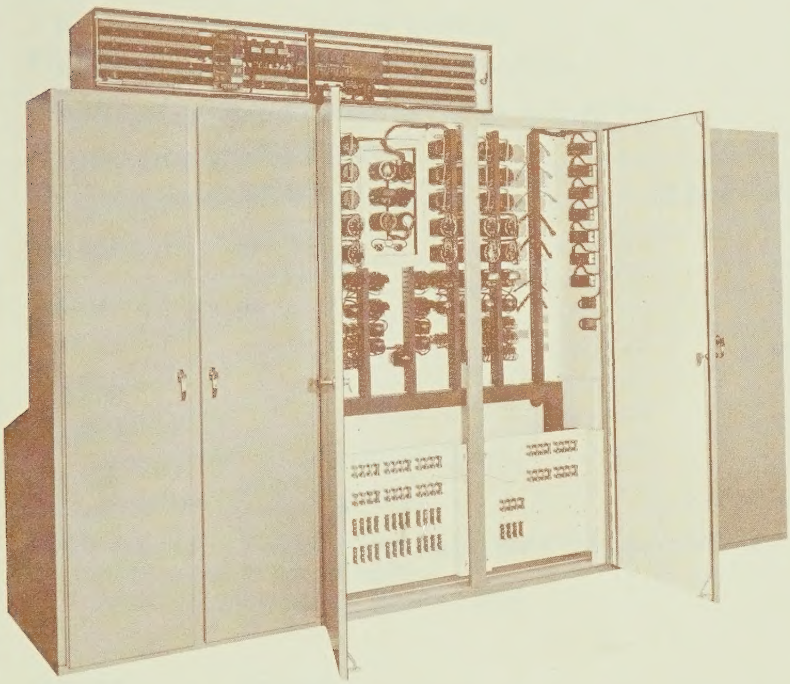
Located in the Toronto suburb of Richmond Hill, Ontario, Ferritronics' plant is equipped with the most advanced production and test facilities to manufacture LC electronic components, filters, mixers and oscillators.

Typical major customers: Northern Radio, Quindar, Marconi.

R. H. NICHOLS CO. LIMITED

Its plant in Downsview, Ontario, is Canada's foremost supplier of Supervisory Control and Telemetering systems for utilities and other industries. Products include Metering systems, Battery chargers, Annunciators and Industrial instruments.

Typical major customers: Ontario Hydro, BC Hydro, Orenda Engines, United Aircraft, Government of Trinidad.



INTERNATIONAL SYSTCOMS LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AS AT APRIL 30, 1970

ASSETS

	1970	1969 re-stated (note 1 (c))
Current Assets	$	$
Accounts receivable —		
Trade (note 2)	628,593	430,216
Unconsolidated subsidiary		47,684
Share subscriptions receivable	460,030	
Inventories — at the lower of cost or net realizable value (notes 2 and 3)	709,195	946,446
	1,797,818	1,424,346
Investment in and advances to unconsolidated subsidiaries (note 1)		
Shares in Delta Electronics Limited — at cost		1,355,730
Shares in R. H. Nichols Co. Limited	1	1
Advances to R. H. Nichols Co. Limited	198,684	104,162
	198,685	1,459,893
Fixed Assets		
Property, plant and equipment — at cost	230,516	184,246
Accumulated depreciation	75,894	58,276
	154,622	125,970
Leasehold improvements — at cost less amortization	26,905	27,078
	181,527	153,048
Excess of cost of shares over net assets of subsidiaries	106,108	196,459
	2,284,138	3,233,746

SIGNED ON BEHALF OF THE BOARD

J. H. BALDWIN, Director

F. V. REGAN, Director

LIABILITIES

	1970	1969 re-stated (note 1 (c))
Current liabilities	$	$
Bank advances — secured (note 2)	589,441	469,364
Accounts payable and accrued liabilities	693,102	744,263
Account payable to unconsolidated subsidiary	21,905	
Loans from shareholders	348,461	92,033
Current portion of long-term debt	64,594	4,594
	1,717,503	1,310,254
Demand bank loan		712,032
	1,717,503	2,022,286
Long-term debt (less current portion shown above)		
Government of Canada loan	2,296	4,594
8% loan from a shareholder, repayable in equal monthly instalments of $5,000 plus interest commencing June 1, 1970	140,000	200,000
	142,296	204,594
	1,859,799	2,226,880
SHAREHOLDERS' EQUITY		
Capital stock (note 4)		
Authorized — 5,000 5% preferred shares of $100 par value, redeemable at par; 5,000,000 common shares of no par value		
Issued or allotted as fully paid — 2,525,676 common shares (1969 — 1,262,838 shares)	3,496,524	2,886,896
Deficit	3,072,185	1,880,030
	424,339	1,006,866
	2,284,138	3,233,746

AUDITORS' REPORT TO THE SHAREHOLDERS

July 27, 1970

We have examined the consolidated balance sheet of International Systcoms Limited and subsidiaries as at April 30, 1970 and the consolidated statements of earnings, deficit and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at April 30, 1970 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in the basis of valuing inventories referred to in note 3 (b).

McDonald, Currie & Co.

CHARTERED ACCOUNTANTS

CONSOLIDATED STATEMENT OF EARNINGS for the year ended April 30, 1970

	1970 $	1969 re-stated (note 1 (c)) $
Sales	2,716,593	1,924,353
Cost of sales	2,333,886	1,816,073
Gross profit	382,707	108,280
Engineering, selling and administrative expense	806,658	653,455
	423,951	545,175
Recovery of prior years' income taxes		84,720
Loss before extraordinary items	423,951	460,455
Extraordinary items		
Cost of termination of a major program		701,105
New product development costs		536,624
Provision for warranties on prior years' sales	52,520	53,067
Prior years' adjustments		24,438
Loss on sale of shares of an unconsolidated subsidiary	285,105	
Reduction of investment in and advances to an unconsolidated subsidiary to estimated net realizable value (note 1 (b))	340,228	220,000
	677,853	1,535,234
Net loss for the year (notes 5 and 6)	1,101,804	1,995,689
The following expenses have been charged in the foregoing:		
Remuneration of executive officers	112,208	49,747
Depreciation and amortization of fixed assets	33,096	23,368
Amounts written off deferred new product development costs		731,861

CONSOLIDATED STATEMENT OF DEFICIT for the year ended April 30, 1970

	1970 $	1969 re-stated (note 1 (c)) $
Retained earnings (deficit) — beginning of year		
As previously reported	(1,660,030)	115,659
Reduction of investment in and advances to an unconsolidated subsidiary to estimated net realizable value (note 1 (b))	220,000	
As restated	(1,880,030)	115,659
Net loss for the year	1,101,804	1,995,689
Excess of cost of shares over net assets of a subsidiary which is ceasing operations	90,351	
Deficit — end of year	3,072,185	1,880,030

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS
for the year ended April 30, 1970

	1970	1969 re-stated note 1 (c)
Source of funds	$	$
Issue of capital stock	609,628	1,698,377
Sale of shares of Delta Electronics Limited	1,070,625	
8% loan from a shareholder		200,000
Non-interest bearing demand loan from an unconsolidated subsidiary	14,000	
	1,694,253	1,898,377
Use of funds		
Net loss for the year	1,101,804	1,995,689
Less: Items not requiring cash outlay —		
Depreciation and amortization	33,096	23,368
New product development costs		507,961
Loss on sale of shares of an unconsolidated subsidiary	285,105	
Reduction of investment in and advances to an unconsolidated subsidiary to estimated net realizable value	340,228	220,000
	658,429	751,329
	443,375	1,244,360
Purchase of shares of an unconsolidated subsidiary		1,355,630
Repayment of 7½% loan		292,000
Repayment of Government of Canada loan	2,298	2,296
Current portion of 8% loan from a shareholder	60,000	
Purchase of fixed assets — net	61,575	33,500
Advances to R. H. Nichols Co. Limited	448,750	54,000
Increase in excess of cost of shares over net assets of subsidiaries		11,484
	1,015,998	2,993,270
Increase (decrease) in working capital	678,255	(1,094,893)
Working capital (deficiency) — beginning of year	(597,940)	496,953
Working capital (deficiency) — end of year	80,315	(597,940)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for the year ended April 30, 1970

1. Principles of consolidation

(a) The consolidated financial statements include the accounts of all wholly and partly-owned subsidiaries with the exception of R. H. Nichols Co. Limited which have not been consolidated since this subsidiary has a dominant minority interest represented by preference shares.

(b) The net loss of the unconsolidated subsidiary for the year ended April 30, 1970 amounted to $431,082. The accumulated losses less profits since acquisition of this subsidiary have resulted in a reduction of $560,228 in the estimated realizable value of the investment in and advances to this company. Accordingly, this amount has been provided in the accounts as follows:

	Cost $	Provision $	Net $
Shares	37,163	37,162	1
Advances	721,750	523,066	198,684
	758,913	560,228	198,685

The liability for advances of $721,750 in the accounts of the unconsolidated subsidiary has not been adjusted.

(c) During the year, the company sold its investment in Delta Electronics Limited. As a result, the consolidated financial statements for 1970 do not include any portion of the operating results of that company. For comparison purposes, the operating results and financial position for the year ended April 30, 1969 have been restated to treat Delta Electronics Limited as a non-consolidated subsidiary for the year 1969 also. The re-stated deficit balance as at April 30, 1969 has been increased by $13,266 over the balance shown in the 1969 consolidated financial statements to reflect the elimination of the net earnings of Delta Electronics Limited which were previously included in arriving at the consolidated net loss for 1969.

(d) The accounts of a foreign subsidiary have been converted into Canadian funds at the approximate rate of exchange in effect at April 30, 1970.

2. Security for bank advances

The bank advances of the company and certain subsidiaries are secured by a pledge of book debts and inventories of those companies.

3. Inventories

(a) Inventories are classified as follows:

	1970 $	1969 $
Finished goods	47,529	201,486
Work in process	322,071	188,691
Raw materials	339,595	556,269
	709,195	946,446

(b) During the year, the company and one of its consolidated subsidiaries changed the basis of applying labour and overhead costs to inventories from estimated costs (as in prior years) to calculated standard costs. This change in method resulted in an increase in the net loss for the year of approximately $61,500.

4. Capital stock

(a) In compliance with the terms of the rights issue of March 23, 1970, 1,262,838 additional common shares were issued at $0.50 per share. The net proceeds from the issue of these shares amounted to $609,628 after deducting $21,791 for issue expenses.

(b) Of the unissued common shares, 126,000 are reserved to fulfill the provisions of an Employees Stock Option Plan, the terms of which are as follows:

100,000 shares exercisable to the extent of 10% at the end of each 6 month period from May 1, 1970 to May 1, 1975.

26,000 shares exercisable to the extent of 25% at the end of each 6 month period from May 1, 1970 to May 1, 1972.

The shares may be acquired at a price of $0.50 each.

(c) A further 34,287 common shares are reserved for the holders of share purchase warrants which entitle the holder of each warrant to subscribe for one common share at $10 per share to June 30, 1971 and at $12.50 per share thereafter to June 30, 1972.

5. Net loss for the year

The consolidated net loss includes the loss of a consolidated subsidiary which ceased operations during the year. The loss of $107,000 represents the cost of ceasing operations and includes a provision for warranties on prior years' sales of $52,520.

6. Tax loss carry forward position

The company and its consolidated subsidiaries have approximate losses for tax purposes available for application against future years' taxable income as follows:

Year incurred	Amount	Available to
1966	4,500	1971
1967	81,900	1972
1968	35,600	1973
1969	1,597,600	1974
1970	447,800	1975
	$2,167,400	

7. Commitments and contingencies

(a) The company has guaranteed the bank indebtedness of R. H. Nichols Co. Limited, which amounted to $465,211 at April 30, 1970.

(b) Together with R. H. Nichols Co. Limited, the company has agreed to indemnify the former Receiver-Manager of that company from all claims and demands that may be made against him for having acted in that capacity.

(c) Jointly and severally with Ferritronics Limited, the company has guaranteed the indebtedness of the owner of the premises occupied by that company to a limit of $25,000.

(d) Annual rentals under long-term leases amount to approximately $47,000 to 1973 and $22,000 thereafter to 1983.

(e) Repayment by the unconsolidated subsidiary of the advance of $721,750 is subordinated to that company's bank advances.

(f) The company is committed to purchase $50,000 of parts annually from a former subsidiary company for a period of five years which commences January 1, 1970.

R. H. NICHOLS CO. LIMITED
BALANCE SHEET AS AT APRIL 30, 1970

ASSETS

	1970 $	1969 $
Current assets		
Cash	1,829	—
Accounts receivable (note 2)	394,713	565,793
Accounts receivable from affiliated companies (notes 2 and 3)	80,770	—
Inventories — at the lower of cost or net realizable value (notes 2 and 4)	460,809	580,424
Prepaid expenses	4,829	4,349
	942,950	1,150,566
Non-interest bearing loan receivable from affiliate company	14,000	—
Fixed assets		
Machinery and equipment — at cost	160,392	159,156
Accumulated depreciation	131,594	124,419
	28,798	34,737
Leasehold improvements — at cost less amortization (1970 — $12,029; 1969 — $9,108)	2,143	4,574
	30,941	39,311
Deferred new product development costs		
less amount written off (note 5)	—	46,458
	987,891	1,236,335

SIGNED ON BEHALF ON THE BOARD

J. H. BALDWIN, Director

F. V. REGAN, Director

LIABILITIES

	1970 $	1969 $
Current liabilities		
Bank advances (note 2)	465,211	454,656
Accounts payable and accrued liabilities	427,831	551,123
Account payable — parent company	85,668	71,860
Advance payments on contracts	82,044	164,227
Provision for completion of Nigerian contract	65,000	150,000
	1,125,754	1,391,866
Advance from parent company (note 6)	735,750	287,000
	1,861,504	1,678,866
DEFICIT LESS CAPITAL STOCK		
Deficit	2,053,931	1,622,849
Capital stock (note 7)		
Authorized —		
6,836 6% non-cumulative (except as described in note 7), non-voting, first preference shares of the par value of $50 each, redeemable at par		
14,000 participating second preference shares of the par value of $50 each, redeemable at par		
50,000 common shares of no par value		
Issued and fully paid —		
6,836 first preference shares	341,800	341,800
11,753 second preference shares	587,650	587,650
5,395 common shares	178,983	178,983
Conributed surplus	3,478	3,478
Reserve for redemption of second preference shares (note 7)	68,407	608,407
	1,180,318	1,180,318
	(873,613)	(442,531)
	987,891	1,236,335

AUDITORS' REPORT TO THE SHAREHOLDERS

July 14, 1970

We have examined the balance sheet of R. H. Nichols Co. Limited as at April 30, 1970 and the statements of earnings and deficit, reserve for redemption of second preference shares and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances, except that we have been unable to determine whether or not the provision for completion of the Nigerian contract is adequate.

Subject to the qualification set out in the preceding paragraph, in our opinion these financial statements present fairly the financial position of the company as at April 30, 1970 and the results of its operations and the source and use of its working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis,consistent with that of the preceding year.

McDonald, Currie & Co.

CHARTERED ACCOUNTANTS

STATEMENT OF EARNINGS AND DEFICIT for the year ended April 30, 1970

	1970 $	1969 $
Sales	2,760,389	1,758,843
Cost of sales	2,626,688	1,708,045
Gross profit	133,701	50,798
Selling and administrative expenses	547,591	497,820
Net loss for the year before extraordinary item	(413,890)	(447,022)
Extraordinary item		
Expenses of and provision for completion of Nigerian contract	(17,192)	(347,523)
Net loss for the year	(431,082)	(794,545)
Deficit — beginning of year	1,622,849	807,833
	2,053,931	1,602,378
Transfer to reserve for redemption of second preference shares	—	20,471
Deficit — end of year	2,053,931	1,622,849
The following expenses have been charged in the foregoing:		
Depreciation and amortization of fixed assets	10,095	12,364
Amount written off deferred new product development costs	46,458	11,803
Interest on long-term debt	—	18,354
Remuneration of directors and senior officers	69,459	85,436

STATEMENT OF RESERVE FOR REDEMPTION OF SECOND PREFERENCE SHARES
for the year ended April 30, 1970

	1970 $	1969 $
Balance — Beginning of year	68,407	47,936
Amount set aside out of 1968 net earnings (note 7)	—	20,471
Balance — End of year	68,407	68,407

STATEMENT OF SOURCE AND USE OF WORKING CAPITAL
for the year ended April 30, 1970

	1970 $	1969 $
Source of working capital		
Advance from parent company	448,750	54,000
Issued second preference shares	—	12,550
	448,750	66,550
Use of working capital		
Net loss for the year	431,082	794,545
Transactions not requiring an outlay of funds —		
Depreciation and amortization	10,095	12,364
Amount written off deferred new product development costs	46,458	11,803
	56,553	24,167
	374,529	770,970
Purchase of fixed assets	1,236	1,685
Purchase of leasehold improvements	489	1,135
Non-interest bearing loan to an affiliate company	14,000	—
	390,254	773,198
Increase (decrease) in working capital	58,496	(706,648)
Working capital (deficiency) — beginning of year	(241,300)	465,348
Working capital (deficiency) — end of year	(182,804)	(241,300)

NOTES TO FINANCIAL STATEMENTS for the year ended April 30, 1970

1. Receiver-Manager

In May, 1968, the appointment of the Receiver-Manager of the company was terminated. The Company, together with International Systcoms Limited, has agreed to indemnify the former Receiver-Manager from all claims and demands that may be made against him for having acted in that capacity.

2. Bank loan

The bank loan is secured by a general assignment of book debts and inventories and a floating charge debenture of $400,000. The bank loan is guaranteed by a shareholder up to $125,000 and the parent company, International Systcoms Limited, has also provided a guarantee as security for the bank loan.

3. Accounts receivable from affiliated companies and other

International Systcoms Limited, the parent company, has guaranteed the Company's receivable from Progress Balance & Control Limited in the amount of $56,298. Holdbacks in the amount of $96,374 (1969 - $96,513) are included in accounts receivable.

4. Inventories

Inventories are classified as follows:

	1970	1969
	$	$
Raw materials	198,347	162,895
Work in process	163,908	358,888
Finished goods	98,554	58,641
	460,809	580,424

5. Deferred new product development costs

New product development costs amounting to $46,458 which previously had been deferred are included as an operating expense for the year ended April 30, 1970 as the projects for which the expense had been incurred were abandoned by the company.

6. Advance from parent company

Repayment of the advance from the parent company of $735,750 is subordinated to the Company's bank advances.

7. Share capital

The holders of the first preference shares are entitled to receive fixed preferential non-cumulative cash dividends at the rate of 6% per annum (called the fixed dividends). They are also entitled to receive with respect to each fiscal year of the company preferential cumulative cash dividends equal to the lesser of:

i) 15% of the net earnings of the company for such fiscal year; or

ii) 6% of the amount paid up on the first preference shares then outstanding;

less any fixed dividends previously declared and paid on such shares with respect to such fiscal year.

The first preference shares may be redeemed at their par value or purchased for cancellation at a price not exceeding their par value; provided always that the company shall not redeem or purchase for cancellation any first preference shares so long as any second preference shares are issued and outstanding.

No dividend shall at any time be declared payable on the second preference shares or the common shares, unless at the same time a dividend in the same amount per share is declared payable on the common shares or second preference shares as the case may be.

The second preference shares may be redeemed at their par value or purchased for cancellation at a price not exceeding their par value.

So long as any of the second preference shares are outstanding, the company shall on or before April 30 in each year set aside in a special account on its books an amount equal to 25% of the net earnings of the company for its last preceding fiscal year, which amount shall be applied as soon as practicable for the redemption of second preference shares provided that the company shall not be required to so apply an amount less than $50,000. An amount equal to the accumulated reserve for redemption of second preference shares was to be disbursed in the year ended April 30, 1970. On May 8, 1970 the trustee advised holders of the second preference shares that 1,360 shares with a par value of $68,000 would be redeemed on June 15, 1970. The Company has forwarded funds sufficient to effect the redemption to the trustee.

8. Commitments

The company is obligated under a lease on its premises to pay $20,600 per annum to January 7, 1974.

The Company also leases vehicles and certain equipment on a short-term basis.

9. Tax loss carry forward position

The Company has losses for tax purposes available for application against future years' taxable income as follows:

Year incurred	Amount	Available to
	$	
1966	863,951	1971
1969	634,833	1974
1970	439,920	1975
	1,938,704	

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